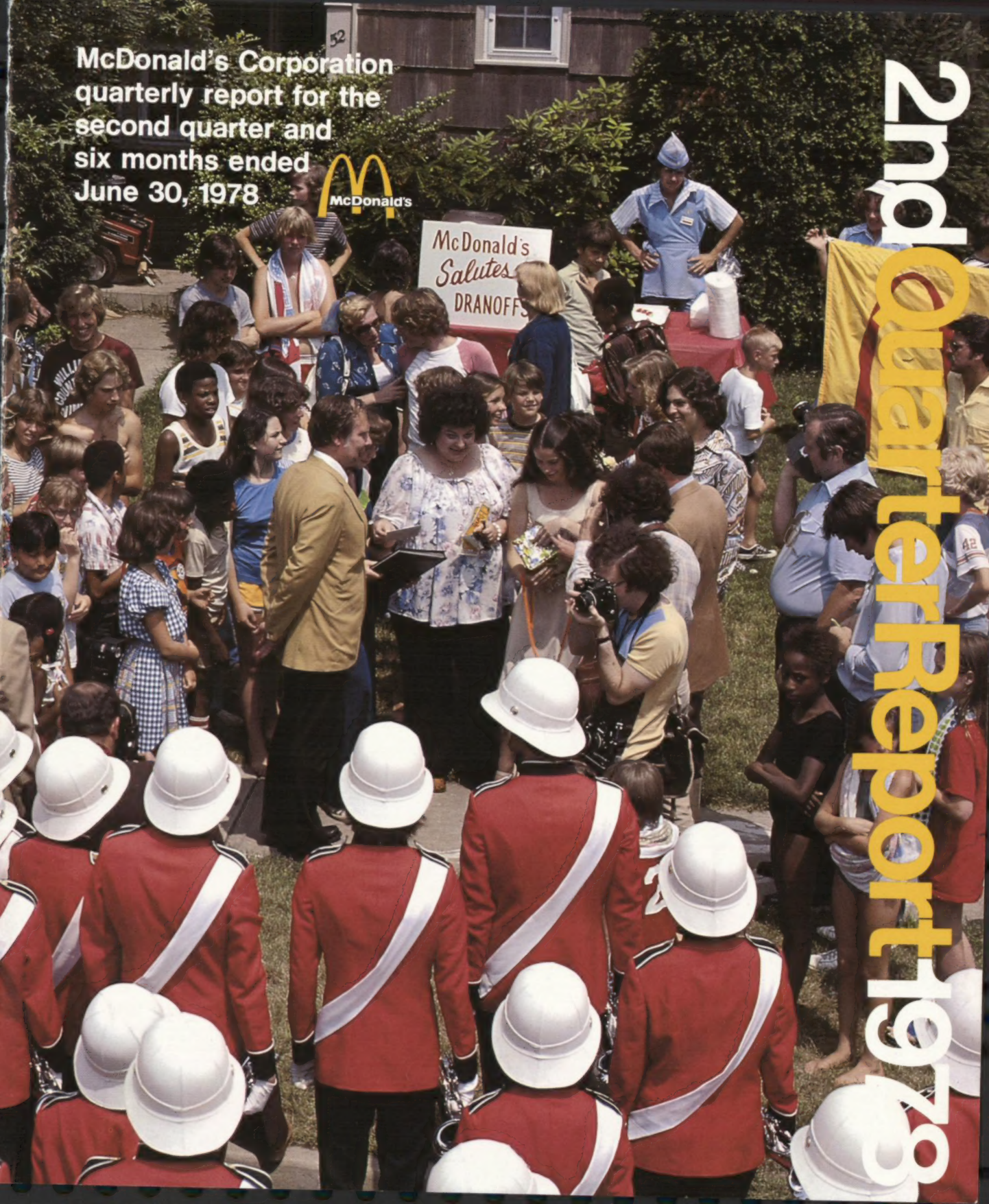


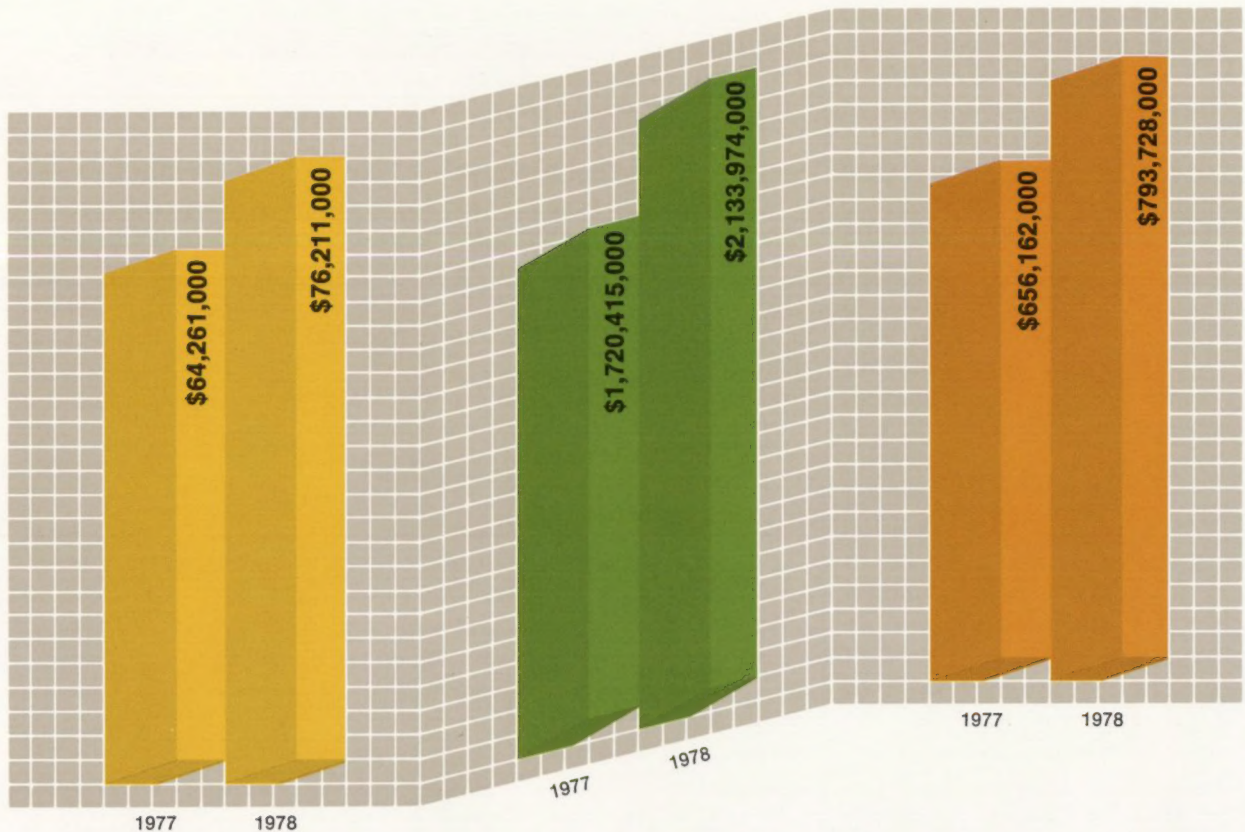
McDonald's Corporation
quarterly report for the
second quarter and
six months ended
June 30, 1978



McDonald's
Salutes
DRANOFFS

2nd Quarter Report 1978



Net income**Systemwide sales****Revenues****On the cover**

This summer 28 Americans each won family reunions with 10 loved ones, compliments of McDonald's. The first winner in the promotion was Nina Dranoff, center of photo, from Willingboro, New Jersey. Don Lewis, left, franchisee of the Edgewater Park, New Jersey, restaurant where Mrs. Dranoff's name was drawn, awarded her the prize. Neighbors, friends, members of the local police force, Ronald McDonald and Willingboro's Black Watch Drum & Bugle Corps all gathered in front of Mrs. Dranoff's home for the celebration. (Story on page 2.)

McDonald's highlights for the six months ending June 30:

**Net income: \$76,211,000,
up 19 percent.**

**Net income per share: \$1.88,
up 18 percent.**

**Systemwide sales: \$2,133,974,000,
up 24 percent.**

**Revenues: \$793,728,000,
up 21 percent.**

To our stockholders:

CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE

McDonald's Corporation is pleased to report that, during the first half and second quarter of 1978, the Company continued its record of outstanding growth and achievement.

For the six months ended June 30, 1978, net income was \$76,211,000, an increase of \$11,950,000 or 19 percent more than the \$64,261,000 achieved in the same 1977 period. Net income per share of common stock was \$1.88, up 18 percent from the \$1.59 in the comparable year-ago period.

Systemwide sales (net sales by all franchised, Company-owned and affiliated restaurants) were \$2,133,974,000 for the first half of 1978, an increase of \$413,559,000 or 24 percent more than the \$1,720,415,000 for the first six months of 1977.

Revenues for the first half were \$793,728,000, up \$137,566,000 or 21 percent more than the \$656,162,000 in the 1977 first half.

Net income for the second quarter of 1978 was \$45,186,000, 19 percent above the 1977 second quarter total of \$37,939,000. Net income per share of common stock for the quarter was \$1.11, 18 percent more than in the 1977 period.

Systemwide sales were \$1,169,521,000 for the second 1978 quarter, up 24 percent from the \$941,387,000 total in the same 1977 period.

Revenues for the quarter were \$430,505,000, 21 percent more than the \$357,127,000 total in the second 1977 quarter.

McDonald's added 115 restaurants during the second 1978 quarter. As of June 30, 1978, the world-wide total was 4,851, compared to 4,336 one year ago. The Company now has 4,225 restaurants located within the United States; the remainder are in 24 international countries and territories. An additional 236 restaurants were under construction at the end of the quarter.

The Board of Directors declared a cash dividend in the amount of 9 cents per share on common stock, payable August 15, 1978, to stockholders of record on July 25, 1978. In May the Board increased the quarterly cash dividend to 9 cents per share, up from 5 cents. On an annualized basis, the new dividend is equivalent to 36 cents per share, compared to the previous 20 cents per share. Your dividend check is enclosed with this report.


McDonald's international sales for the first six months of 1978 were \$322,615,000, an increase of \$107,875,000 or 50 percent more than the comparable 1977 total.

In the quarter your Company offered \$100 million in 8 $\frac{5}{8}$ percent sinking fund notes at 99 $\frac{1}{2}$ due in 1988. The proceeds, which were received in the third quarter, were used principally to reduce long-term revolving credit obligations.

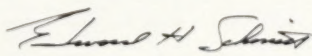
During the quarter the Company elected three new vice presidents, Robert Desatnick, John L. French and Shelby Yastrow, and one assistant vice president, Stanley R. Stein.



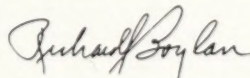
Ray A. Kroc
Senior Chairman
of the Board



Fred L. Turner
Chairman of the Board and
Chief Executive Officer



Edward H. Schmitt
President and Chief
Administrative Officer



Richard J. Boylan
Senior Executive Vice President
and Chief Financial Officer

McDonald's salutes American families

Parents, brothers, sisters, grandparents, aunts and uncles, dozens of cousins, potluck picnics, big dinners, backyard baseball games—they're all part of family reunions. And, because of McDonald's, there'll be more of these reunions this year.

Between June 5 and July 16, the Company conducted an unprecedented salute to American families. Highlighting it was a family reunion give-away.

During each day of the 28-day salute, a customer from one of the participating McDonald's restaurants won a reunion for 10 people. Sometime this year these winners each will be able to

bring home 10 relatives or friends from anywhere in the continental United States. McDonald's, with the assistance of United Airlines, will pick up the tab for transportation, accommodations and meals, and provide a stipend to cover additional expenses.

One of the winners was Jim Wayda, 39, from Melrose, Massachusetts. Knowing that his wife Rachel rarely sees her family, he told her, "Here's your chance."

"I'm just thrilled," said Rachel. "I really miss my mom. She lives in Florida, and I haven't seen her in seven years. I haven't seen my two sisters, who live in Texas, in five. We all haven't been together in 10 years."

Visiting Jacob Stearle, 50, a winner from Hales Corner, Wisconsin, will be his children from the east coast, as well as

a brother and his family from the south. "My wife and I are thinking of having a big holiday dinner," he smiled.

Each of the participating McDonald's also gave away a smaller reunion. The winning customer won free airfare and expenses to bring home two loved ones.

All families winning reunions have received free memberships in the American Family Society, a not-for-profit association that promotes the importance of the family.

Besides the reunion, the restaurants gave away family dinners at McDonald's every day of the program.

Complementing the salute to the family were McDonald's TV spots, telecast nationally, which showed typical American families enjoying typical family reunions.

The crème de la crème of McDonald's crewpeople in Canada, these two young ladies participate in the finals of the Canadian McDonald's 1978 All-Star Competition. Canadian restaurant crew teams annually pit their excellence in their area (window, grill, fries or customer service) against other teams—first at the local and then the provincial level. To cap off the program, the top teams from nine provincial areas meet to compete for national honors. This year's finals were held May 13 in Vancouver, British Columbia.



Crewpeople and restaurants join the fight against muscular dystrophy

For the seventh consecutive year, McDonald's restaurants throughout the United States and Canada are actively raising monies to help in the fight against muscular dystrophy.

The theme of this year's program is "The Crewsade Against Muscular Dystrophy." It focuses on the efforts of McDonald's crewpeople, STAR (Store Activities Representative) personnel, managers, staff and friends to help defeat the muscle-debilitating disease that primarily affects children.

Crews in participating restaurants will use a number of activities to raise funds for the charity; for example, canister drives, a "Balloons Against Muscular Dystrophy" program, "Ronald McDonald Carnivals Against Dystrophy," walk-a-thons, disco-thons, garage sales, car washes and so on.

The Crewsade will continue throughout the summer months.

At the culmination of the program, 25 crewpeople—one from each of McDonald's 24 U.S. regions and one from Can-

ada—will travel to Las Vegas to appear on the Jerry Lewis Labor Day Telethon. There the crewpeople will present to Jerry Lewis the monies contributed by McDonald's employees, restaurants and customers.

McDonald's representatives have appeared on each Jerry Lewis Telethon since 1972. In 1977 McDonald's contribution totaled more than \$1.7 million. That year an estimated 92 million Americans viewed the event.

In April the people of Japan joined the legions of Quarter Pounder People around the world as McDonald's restaurants in that country introduced the Quarter Pounder sandwiches to their customers. Indications are that the Japanese like the Quarter Pounder and Quarter Pounder with Cheese as much as their American neighbors do. At the end of the second 1978 quarter, McDonald's had 135 restaurants in Japan.



100% ビーフたっぷり2倍半 (110g)

クォーターパウンダー
チーズクォーターパウンダー

Something's cooking in Oak Brook

In McDonald's World Headquarters, Oak Brook, Illinois, is a special kitchen: the McDonald's Test Kitchen.

There, amid inviting aromas and polished stainless steel appliances, a well-known chef and two home economists monitor every aspect of the McDonald's menu, from taste to appearance to quality.

The kitchen is also where the Company tests potential new products. This area is the domain of chef Rene Arend. "We continually receive new product suggestions from Corporate people, franchisees or others in the McDonald's system," said Arend. "We look at each suggestion, and I test as many as three a day."

Using traditional kitchen equipment plus that found in a McDonald's restaurant, Arend tries to prepare a new product so that it meets McDonald's standards and also fits into its production system.

He has tested items that range from a vegetarian sandwich to peanut butter. These two ideas never got off the "back burner." But, when a new product looks as if it has possibilities, the chef will hold taste panels to see how the public likes it. From the taste panel stage, the product may



McDonald's chef Rene Arend is a native of Luxembourg who has studied and worked at his art in France, Luxembourg and the United States. Before joining McDonald's in 1976, he was a chef at Chicago's renowned Whitehall Hotel. How difficult was the transition from French cuisine to world-famous French fries? "When I first came to McDonald's, my friends raised their eyebrows," Arend recalls. "But now they are very interested in my work and have much respect for what I do."

then be placed into a limited number of restaurants for continued testing.

Arend's new product efforts are the glamorous part of the test kitchen's work. However, the majority of the staff's time is spent doing "discrimination testing." For example, before a pickle supplier is even considered for the McDonald's system, his pickles must be tested to see how they compare with the pickles used on McDonald's hamburgers.

"If there is a big difference in taste, we determine it ourselves," said Ravin Battin, senior home economist in the kitchen. "But, if the product appears to be the same, we conduct a taste panel to ensure that the public perceives no difference."

The kitchen has a "sensory testing" area where the taste panels take place. It includes eight booths in which the tasters sit. The testor can control the color and lighting in each booth so that the food's appearance or outside stimuli will not affect the tasters' decisions.

Members of the taste panel are chosen from approximately 100 people whose food likes and dislikes—as well as tasting ability—are recorded on a McDonald's computer.

The kitchen staff also tests how changes in packaging, equipment or production methods affect products.



Meetings focus on marketing

Meetings for McDonald's franchisees, Corporate employees, local marketing people and restaurant personnel were on the Company's agenda during the second 1978 quarter.

Among these meetings were two that focused on special local restaurant marketing programs: the Community Marketing Convention and the Ronald McDonald House Conference.

Some 500 STAR (Store Activities Representative) Coordinators and senior account executives from advertising and public relations agencies serving McDonald's local markets attended the Community Marketing Convention. This meeting concentrated on the marketing objectives and techniques pertinent to an individual McDonald's restaurant or market.

Another 170 persons—McDonald's franchisees, advertising managers, advertising agency executives, as well as doctors and hospital administrators—met to exchange information and ideas on the Ronald McDonald House program. Currently 20 McDonald's markets are establishing Ronald McDonald Houses, homes near children's hospitals where families of seriously-ill children can stay while they receive treatment.

Seven million youngsters visit McDonald's on Kids' Day

The Company that gave American kids their favorite clown, Ronald McDonald, recently recognized them with a day of their own: Kids' Day.

On May 7 each child under the age of 10 who visited a participating McDonald's restaurant in the U.S. or Canada received a free sample sundae and a special prize from McDonald's Barrel of Fun.

During the day the restaurants hosted more than seven million youngsters.

Many franchisees took ad-

vantage of the event to offer their own salute to kids. For example, Bob Edwards, a McDonald's franchisee in Bellevue, Nebraska, had a special carnival on his restaurant's parking lot. Ronald McDonald and the McDonaldland characters put on a show under a circus big top. There were also games, a "petting" zoo and free Ronald McDonald balloons. Edwards donated the \$1,000 in proceeds to a local theater arts group.

Consolidated statement of income

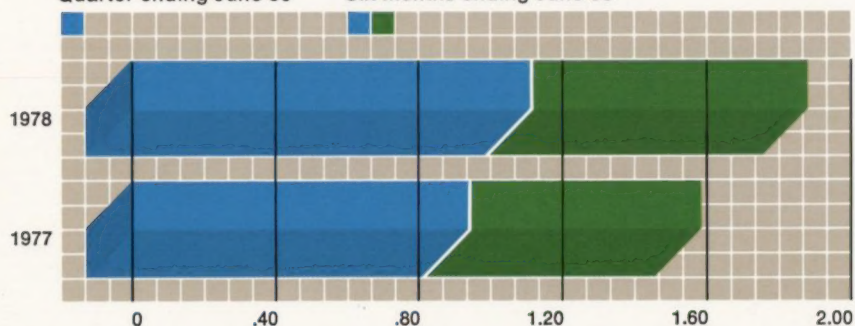
	<i>(Dollars in thousands, except per share amounts)</i>			
	Six months ending June 30		Quarter ending June 30	
	1978	1977	1978	1977
Revenues:				
Sales by Company-owned restaurants	\$612,528	\$510,356	\$332,971	\$278,892
Revenues from franchised restaurants	164,351	131,697	90,121	71,873
Gains on sales of Company-owned restaurant businesses	8,979	7,701	3,563	3,439
Interest and other income—net	7,870	6,408	3,850	2,923
Total revenues	793,728	656,162	430,505	357,127
Costs and expenses:				
Company-owned restaurants	510,256	414,200	273,674	223,724
Expenses directly applicable to revenues from franchised restaurants	22,441	18,371	11,422	9,288
General, administrative and selling expenses	82,399	69,508	42,688	35,846
Interest expense	31,221	27,535	15,669	14,010
Total costs and expenses	646,317	529,614	343,453	282,868
Income before provision for income taxes	147,411	126,548	87,052	74,259
Provision for income taxes	71,200	62,287	41,866	36,320
Net income	\$ 76,211	\$ 64,261	\$ 45,186	\$ 37,939
Net income per share of common stock	\$ 1.88	\$ 1.59	\$ 1.11	\$.94

Earnings per share periods ending June 30

in dollars

Quarter ending June 30

Six months ending June 30



Consolidated balance sheet

	(In thousands of dollars)	
	June 30, 1978	and 1977
Assets		
Current assets:		
Cash and certificates of deposit	\$ 54,067	\$ 44,840
Short-term investments	40,440	54,353
Accounts and notes receivable	44,865	36,475
Inventories	14,150	11,892
Prepaid expenses and other current assets	21,881	18,374
Total current assets	175,403	165,934
Other assets and deferred charges	69,567	67,905
Property and equipment, at cost	1,718,448	1,409,239
Less accumulated depreciation and amortization	278,446	219,818
Net property and equipment	1,440,002	1,189,421
Intangible assets, net	43,064	36,983
Total assets	<u>\$1,728,036</u>	<u>\$1,460,243</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts and notes payable	\$ 101,411	\$ 89,309
Income taxes	20,258	19,544
Other accrued liabilities	33,217	29,733
Current maturities of long-term debt	32,686	25,455
Total current liabilities	187,572	164,041
Long-term debt	724,850	628,587
Security deposits by franchisees	47,138	41,807
Deferred income taxes	57,166	48,930
Stockholders' equity:		
Common stock, no par value		
Authorized—100,000,000 shares		
Issued—40,561,268 shares in 1978 and 40,532,190 shares in 1977	4,510	4,507
Additional paid-in capital	90,841	89,646
Retained earnings	621,016	483,692
	716,367	577,845
Less treasury stock, at cost—105,287 shares in 1978 and 17,800 shares in 1977	5,057	967
Total stockholders' equity	711,310	576,878
Total liabilities and stockholders' equity	<u>\$1,728,036</u>	<u>\$1,460,243</u>

Consolidated statement of retained earnings

	Six months ending June 30		(In thousands of dollars) Quarter ending June 30	
	1978	1977	1978	1977
Balance at beginning of period, as previously reported		\$432,187		\$458,412
Restatement for capitalization of leases		(8,704)		(8,607)
Balance at beginning of period, as restated	\$554,106	423,483	\$583,110	449,805
Net income	76,211	64,261	45,186	37,939
Cash dividends	(9,301)	(4,052)	(7,280)	(4,052)
Balance at end of period	<u>\$621,016</u>	<u>\$483,692</u>	<u>\$621,016</u>	<u>\$483,692</u>

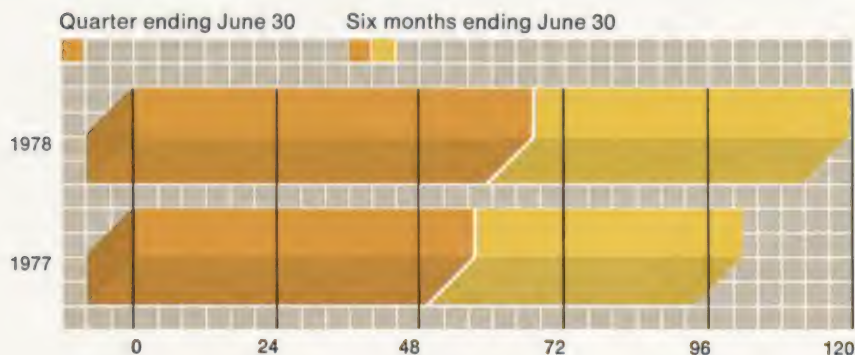
Consolidated statement of changes in financial position

	Six months ending June 30		(In thousands of dollars) Quarter ending June 30	
	1978	1977	1978	1977
Source of working capital:				
Operations—				
Net income	\$ 76,211	\$ 64,261	\$ 45,186	\$ 37,939
Items not involving working capital	42,609	37,104	21,783	19,936
Total from operations	118,820	101,365	66,969	57,875
Additions to long-term debt	94,857	66,826	36,901	38,792
Property and equipment disposals	8,766	6,923	3,881	3,505
Security deposits by franchisees	3,031	2,209	1,834	1,363
Total source of working capital	225,474	177,323	109,585	101,535
Use of working capital:				
Additions to property and equipment	149,361	119,814	81,827	68,344
Non-current assets of businesses purchased	4,072	9,125	1,329	4,893
Notes receivable due after one year	10,253	6,365	5,049	2,625
Long-term debt reductions	57,119	35,235	21,695	19,283
Cash dividends	9,301	4,052	7,280	4,052
Other changes in financial position—net	798	1,511	1,280	2,073
Total use of working capital	230,904	176,102	118,460	101,270
Increase (decrease) in working capital	<u>\$ (5,430)</u>	<u>\$ 1,221</u>	<u>\$ (8,875)</u>	<u>\$ 265</u>

Two year quarterly comparison

	(Dollars in thousands, except per share amounts)			
	Quarter ending June 30		Quarter ending March 31	
	1978	1977	1978	1977
Restaurants in operation at end of quarter:				
Operated by franchisees	3,340	2,959	3,239	2,881
Operated by the Company	1,347	1,244	1,343	1,221
Operated by affiliates	164	133	154	123
Total restaurants	4,851	4,336	4,736	4,225
Restaurant sales:				
Operated by franchisees	\$ 793,073	\$639,418	\$645,726	\$526,598
Operated by the Company	332,971	278,892	279,557	231,464
Operated by affiliates	43,477	23,077	39,170	20,966
Systemwide sales	\$1,169,521	\$941,387	\$964,453	\$779,028
Consolidated statement of income highlights:				
Total revenues	\$ 430,505	\$357,127	\$363,223	\$299,035
Income before provision for income taxes	\$ 87,052	\$ 74,259	\$ 60,359	\$ 52,289
Net income	\$ 45,186	\$ 37,939	\$ 31,025	\$ 26,322
Net income per share of common stock	\$ 1.11	\$.94	\$.77	\$.65

Working capital generated from operations periods ending June 30 in millions of dollars



Financial comments

Basis of presentation

The accompanying consolidated financial statements and financial comments do not include all of the disclosures made in the Company's annual report to stockholders, but in the opinion of the Company, include all adjustments necessary for a fair presentation.

Restatement of prior periods' financial statements

The consolidated financial statements and other data herein for 1977 have been restated from amounts previously reported to retroactively adopt the provisions of Statement of Financial Accounting Standards No. 13, Accounting for Leases. The building portion of capitalized leases as defined in the Statement is now capitalized and a related liability is reflected in the financial statements.

Due to the retroactive capitalization of these leases, net income has been decreased by \$30,000 for the first six months of 1977 and \$127,000 for the second quarter of 1977 from the amounts originally reported. Net income per share for the first six months of 1977 and the second quarter of 1977 remains unchanged. From amounts previously reported in the 1977 second quarter report, net property and equipment has been increased \$85,416,000 and long-term debt has been increased \$99,335,000 at June 30, 1977 due to the restatement.

Restaurant acquisitions and dispositions

The Company purchased restaurant businesses from franchisees and sold restaurant businesses to franchisees as follows:

	Purchased		Sold
	Number of restaurant businesses	Approximate purchase price	Number of restaurant businesses
<i>(Dollars in thousands)</i>			
Six months ending			
June 30, 1978	16	\$4,072	51
1977	29	\$9,125	55
Quarter ending			
June 30, 1978	6	\$1,329	20
1977	14	\$4,893	22

The number of restaurants sold in the six months ending June 30, 1978 and 1977 includes 29 and 26 restaurants, respectively, which were previously leased to the purchasers. The corresponding number of restaurants in the second quarter 1978 and 1977 were 13 and 10, respectively.

Results of operations of restaurant businesses purchased have been included in the consolidated statement of income since dates of acquisition. Results of operations of such businesses for periods prior to purchase and the results of operations of restaurant businesses sold, prior to their sale dates, were not material to the consolidated financial statements.

Management analysis

The Company again achieved record highs in Systemwide sales, Revenues and Net income for the periods ended June 30, 1978. This continued growth is reflected in all elements of the results of operations, as the following table and discussion illustrate.

	1978 increase over 1977			
	Six months ending June 30		Quarter ending June 30	
	Amount	%	Amount	%
	<i>(Dollars in thousands)</i>			
Systemwide sales	\$413,559	24	\$228,134	24
Revenues—				
Sales by Company-owned restaurants	102,172	20	54,079	19
Revenues from franchised restaurants	32,654	25	18,248	25
Other revenues	2,740	19	1,051	17
Total revenues	137,566	21	73,378	21
Costs and expenses—				
Company-owned restaurants	96,056	23	49,950	22
Expenses directly applicable to revenues from franchised restaurants	4,070	22	2,134	23
General, administrative and selling expenses	12,891	19	6,842	19
Interest expense	3,686	13	1,659	12
Total costs and expenses	116,703	22	60,585	21
Income before provision for income taxes	20,863	17	12,793	17
Provision for income taxes	8,913	14	5,546	15
Net income	11,950	19	7,247	19

The increase in Systemwide sales is attributable to new restaurants opened from January 1, 1977 through June 30, 1978 and to higher average sales volumes for existing restaurants. Although price increases do contribute to growth in revenues, their impact is not practicable to determine due to the lack of uniform pricing throughout the system and variances in product mix.

Costs and expenses related to Company-owned restaurants had a greater percentage increase than Sales by Company-owned restaurants due principally to a substantial escalation of meat costs and higher labor costs attributable to an increase in the minimum wage.

The percentage increase in Revenues from franchised restaurants is greater than the increase in Sales by Company-owned restaurants primarily because of the greater percentage increase in the number of franchised restaurants during the period. From January 1, 1977 to June 30, 1978, the number of Company-owned and operated restaurants increased 11 percent compared to an 18 percent increase in the number of restaurants operated by independent franchisees.

The increase in General, administrative and selling expenses over the comparable year ago periods is indicative of the Company's expanded level of operations. A greater number of employees and a growing international market have both contributed to increases in General, administrative and selling expenses.

Interest expense is also higher, resulting from additional financing for new restaurant properties acquired over the last eighteen months and reflecting the Company's continued emphasis on owning property versus leasing. The Company feels that ownership of real estate will yield long-term benefits, among which are the anticipated continuation of appreciation in real estate values and the contra-inflationary advantages of owning versus leasing.

A comparison of the second quarter 1978 operating results with the first quarter 1978 generally reflects patterns of prior years and shows no significant variations.

Foreign operations

The number of restaurants located outside the United States and their sales are summarized as follows:

Number of restaurants at	June 30, 1978	and 1977
Operated by the Company	243	216
Operated by franchisees	219	160
Operated by affiliates	164	133

626 509

Restaurant sales	Six months ending June 30		Quarter ending June 30	
	1978	1977	1978	1977
(In thousands of dollars)				
Operated by the Company	\$128,163	\$101,106	\$ 68,785	\$ 55,349
Operated by franchisees	111,805	69,591	61,347	39,318
Operated by affiliates	82,647	44,043	43,477	23,077
	<u>\$322,615</u>	<u>\$214,740</u>	<u>\$173,609</u>	<u>\$117,744</u>

Included in the consolidated statement of income are foreign currency exchange gains of \$607,000 and \$553,000 for the six months ending June 30, 1978 and 1977, respectively. Such amounts for the second quarter 1978 and 1977 were gains (losses) of \$305,000 and \$(75,000), respectively.

Property and equipment

In order to properly match costs with revenues, interest on borrowings, rent charges and real estate taxes related to the development of new restaurant property are capitalized through the development period.

Interest capitalized was \$2,109,000 and \$1,296,000 for the six months ending June 30, 1978 and 1977, respectively. For the second quarter, such amounts were \$1,157,000 in 1978 and \$723,000 in 1977. If all interest had been expensed when incurred, net income as reported would have been reduced by the following amounts: \$820,000 and \$570,000 for the six months ending June 30, 1978 and 1977, respectively; and \$420,000 and \$320,000 for the second quarter 1978 and 1977, respectively. These amounts are net of amortization of capitalized interest and related income tax effects.

Rent and real estate taxes capitalized were \$1,280,000 and \$894,000 for the six months ending June 30, 1978 and 1977, respectively. For the second quarter, such amounts were \$700,000 in 1978 and \$457,000 in 1977.

Net income per share

Net income per share is computed based on the average number of common and common equivalent shares outstanding during each period: 40,611,017 and 40,518,724 in the six months ending June 30, 1978 and 1977, respectively; 40,691,050 and 40,522,711 in the second quarter 1978 and 1977, respectively.

**McDonald's Corporation
McDonald's Plaza
Oak Brook, Illinois 60521**

The following trademarks and
service marks referred to in
this report are owned by

McDonald's Corporation:

Crewsade

McDonaldland

McDonald's

Quarter Pounder

Quarter Pounder with Cheese

Ronald McDonald

Ronald McDonald House

STAR



Congratulations
TO THE
DRANOES